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The Dynamic Capability Development through Learning Orientation: Malaysian International New Venture (INV) firms

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ABSTRACT

Traditional theories of internationalisation have long been questioned because of the fast-changing environment and deregulations. As the time has evolves, the business environment has become more challenging and it started to question the initial proposals of the RBV for being static and neglecting the influence of market dynamism. In particular for International New Venture (INV) firms, namely as a firm which seeks a significant competitive advantage from the use of their resources in pursuing international sales in multiple countries from the early stages of their operation. It is also a question to ponder on how these small firms could survive in a dynamic environment with a lack of resources and skills. Additionally, INV firms are able to penetrate the international market within a short period of establishment because the firm needs to own unique capabilities to make their resources become more useful. However, several issues surrounding the dynamic capabilities conceptualization remain uncertain. The quick growth of the dynamic capabilities literature and its diversity is disengaged and pointing in different directions. In regard of this situation, there is still a gap in understanding the "link between learning, capability development and firm growth" (Zahra et al., 2009,p.91).

1. Introduction

The internationalization of firms and the emergence of International New Ventures (INVs) have been among the most interesting topics in business research during the last few decades because they have acknowledged and addressed the link between international business and entrepreneurship more explicitly (Oviatt and McDougall, 1994; McDougall and Oviatt, 2005). International entrepreneurship has now developed as an important area among scholars of both entrepreneurship and international business. For instance, there is still many vague research questions, including the issue of why some firms internationalize early, some of them are late in their development, and still others choose to remain local, is a fundamental question for international business scholarship (Cavusgil, 2015). In addition, Dimitratos et al. (2012) also propose that "a comprehensive understanding of the international entrepreneurialness of a firm regardless of its size, age or sector also requires an examination of its learning orientation" (as cited in Gabrielsson et al., 2014).

Furthermore, Zahra and Wright (2011) discussed that these INVs studies are moving into the scope of micro foundations level. These micro foundations refer to individual cognitions, attitudes, beliefs, motivations, and behaviors that create and influence macro structures and other social economic activities (Abell et al., 2008). Even though the discussion of micro foundations is more focus on the individual cognition, here, the focus is at the basis of the firm level.

Therefore, the study of micro foundations can reveal the micro processes that are involved and how the firms have been managed and coordinated (Teece, 2007). These micro processes have been underexplored by many scholars (Abell et al., 2008). According to Zahra and Wright (2011), some research explains the mixture of these micro processes which in turn will influence the macro constructs such as capability development (e.g., Autio et al., 2011). However in this study, researcher tend to explain the micro mechanism, by referring to the micro processes of resources and capability accumulation and coordination (Zahra and Wright, 2011). Furthermore, Nelson and Winter (1982), fundamentally stressed that performance improvements may come about not just through selecting new routines and capabilities, but also through changing or influencing the micro-mechanisms through which routines work their influence on performance (as cited in Abell et al. 2008). Here, there is a strong point to say that the influence of these micro processes might of themselves lead to capability development, which will be discussed more in the other part of this literature review.

2. Literature Review

International New Ventures (INVs): Definition and categorization

The term International New Ventures (INVs) was introduced by Oviatt and McDougall in their 1994 JIBS article. They define "INVs as a firm which seeks a significant competitive advantage from the use of their resources in pursuing international sales in multiple countries from the early stages of their operation" Oviatt and McDougal (1994, p49). According to them, these firms are global from inception, or internationalize within 2 years of establishment (Oviatt and McDougal, 1994). Other authors defined the timescale as within 3 years from their start-up (Madsen and Servais, 2007), to six years (Zahra, Ireland, and Hitt 2000; Knight and Cavusgil, 1996) and up to eight years (McDougall, Shane, and Oviatt, 1994). Zahra (2006) argue that it is difficult to determine the exact launch time of firms, rather it is the firm's goal, resources or connection with others (networking) that are essential in determining the time to start internationalize. There are also different terms could describe INVs; few scholars have used the term 'Born Global'(BG) firms (Rennie, 1993; Madsen & Servais, 1997; Knight and Cavusgil, 1996), while others have called them "instant internationals" (Preece et al.,1999), or early internationalising firms (Rialp, Rialp & Knight, 2005). Even though, much journals are tend to use the term BG, but, the researcher is more comfortable to use the term INVs as introduced by Oviatt and McDougal (1994).

Following Oviatt and McDougall (1994) line, the main key dimensions in their study of INVs are the scale (e.g., export intensity), scope (possible indicators include market distance and number of markets), and time (speed) of internationalization (as cited in Kuivalainen et al, 2012).

Therefore, in order to make relevant characteristics of INVs, researcher decides to adopt the least ambiguous definition to identify this INVs firm (Chetty and Campbell, 2004). In this research INVs firms are consequently defined as:

- Firms that undertake international operations from within two (2) years of inception (McKinsey and Co. 1993; Oviatt and McDougall, 1994) and up to eight (8) years (McDougall, Shane, and Oviatt 1994 cited in Chetty and Campbell, 2004) after inception. Researcher decide to be more flexible in term of the age of having international activities and the time period because exporting is not straight forward process, especially for the start-up companies with a limited international exposures (Gabrielsson et al., 2008).
- They should be independent firms (Gabrielsson et al., 2008)
- Generate at least 25% of its revenue from international business (Knight and Cavusgil, 1996)
- Possibly enter multiple foreign markets (Oviatt and McDougall,1994) that are psychically distant from the home country using one of several types of entry modes including exporting, licensing, joint ventures, and even foreign direct investment.

Resource Based View (RBV) and International New Ventures (INVs)

One of the important theoretical supports for the INVs phenomenon is their resources that enable the development of capabilities (Kocak and Abimbola, 2009). Therefore, a resource-based view (RBV) can be considered as the best suit theoretical explanation for the INV phenomenon. RBV generally helps to explain on how resources and capabilities are developed and leveraged by small medium enterprise (Knight and Cavusgil, 2004). Mostly, resources are the grounds of a firm and the foundation for firm capabilities. In particular, RBV assumes that firms can be conceptualized as bundles of resources that are heterogeneously distributed across (Barney, 1991). Therefore, based on that assumption, Barney (1991) argues that when firms have resources that are valuable, rare, inimitable and non-substitutable, firms can achieve a sustainable competitive advantage (SCA) that is difficult to duplicate by rival firms. On the other hand, to enter foreign markets, Bloodgood et al. (1996) agree that new ventures need to accumulate tangible and intangible resource stocks, and as suggested by Barney (1991), these stocks valuable, inimitable and non-substitutable. Thus, firms with unique bundles and with greater combination of resource stocks may have a greater tendency towards internationalization. Furthermore, with the dynamic and uncertain environment, it is necessary for small and new ventures to engage in cross-border activities in order to ensure their growth and survival as suggested by D'Souza and McDougal (1989).

Linking resource slack with learning exploration

As young firms, INVs have a tendency of lacking the substantial financial and human resources, as well as plant, equipment, and other physical resources. During the development of INVs, it tends to influence a collection of fundamental intangible knowledge-based capabilities in order to cultivate the overseas markets (Knight and Cavusgil, 2004). INVs might not only face with the lack of resources, but also face with the difficulty in managing their resources. Here, researcher decides to discuss an issues of slack resources; the in excess resources that become an important determinants of organizational structure, growth, and performance (Penrose, 1959). Slack resources give the firm flexibility in managing changes in a dynamic environment (Moreno et al., 2009). Bourgeois (1981) added that slack is a resource cushion that firms can use in a flexible manner, both to explore and exploit opportunities. Slack resources are also seen as poor management because the organizations that have slack or excess resources (e.g. capital, labour, capacity) are not operating in an ideal way. Furthermore, prior scholars had suggested slack resources as the strategic tools to assist the risk taking, innovation and performance in a dynamic environment (Huang and Li, 2012; Nohria and Gulati, 1996; Tan and Peng, 2003).

Additionally, there is empirical evidence between slack and learning in a number of private and public sector settings have a positive link (Chen, 2008; Danneels, 2008; Greve, 2003; Kim, Kim and Lee, 2008; Salge and Vera, 2013). Voss et al (2008) believe that the rarity of the slack resources and to which extent the slack resources is absorbed will determine the consequent effects on their exploration and exploitation. Basically, there are four types of slack resources that result from combining those two resource characteristics: resource rarity and resource absorption (examples include stocks of dedicated investments such as production capacity and specialized skilled labor (Greve, 2003). Those four slack resources are (Voss et al., 2008):

• Financial Slacks which determine as generic and unabsorbed.
• Customer Relational Slack which determine as rare and unabsorbed
• Operational Slack which determine as generic and absorbed
• Human Resource Slack which determine as rare and absorbed

To be more specific, in this research the researcher is interested in focusing on intangible resources. Surroco et al (2010), classified human capital, culture, reputation and innovation as intangible slack resources. Therefore, in this research, human resource slack will be included as one of the variables in the model, because it is part of the condition for continued existence and development of the firm. According to Becker (1964), human resources are including learning, expert skills, judgment, knowledge, social relations and insight which the employee owned (cited in Sirmon and Hitt, 2008).

However, Voss et al (2008) indicate that different forms of slack resources exert different impact towards the product exploration and exploitation. For instance, Voss et al (2008), in their study proposes that firms with low level of resource slack are more likely to explore (Katila and Shane, 2005) and firm with high slacks usually resulted to develop the exploitation through their known capabilities (Levinthal and March, 1993). While, some other literatures appears to support the idea that firm resources (slack resources) have a positive relationship towards exploration activities (Voss et al, 2008) and sometimes can increase incremental adaptation or exploitation (Tan and Peng,2003; Voss et al, 2008). Despite, there are still no consistent studies mention about relationship between organizational slack and the influence towards the product exploration and exploitation (Voss et al, 2008).

Thus, taking the prior discussion into account, researcher proposes the following hypotheses. It is likely to say that there is a logical connection between levels of slack resources towards the learning exploration:

H1: Low level of slack resource is positively associated with learning exploration

Learning exploration as pathways to capability development

The learning orientation represents a deliberate learning and this is captured as one of a firm Dynamic capability (DC). DC is basically a learning process. Actually, the extents to which a firm learn are DC that converts its other capabilities in some kind of outcome. Additionally, learning orientation is one kind of capability which can help firms carry out management practice, form new businesses and innovations, and create new routines to facilitate and encourage greater knowledge exploration and exploitation in the firm (Akgu, Keskin, Byrne, and Aren, 2007). March (1991:71), define exploration in a context of organizational learning as; Exploration activities: activities of searching, variation, risk taking, experimentation, flexibility, discovery, innovation and often negative. Levinthal and March (1993, p. 105) define exploration as "the pursuit of knowledge, of things that might come to be known".

Building on these definitions, this research define learning exploration as a learning activity with new alternatives and acquisition of new knowledge, skills, and technologies (Levinthal and March, 1993) and that creates novel capabilities that enable on-going innovation and generally results in superior long term returns (Geroski, Machin, & Van Reenen, 1993). March (1991), mentioned that if a firm is too focused on exploration, firms will suffers the costs of experimentation without gaining many of its benefits because it exhibits too many new and risky ideas and little refinement of its existing capabilities (Atuahene-Gima, 2005).

To advocate the following hypotheses, learning advantages of newness literatures mention that small or new establish firms could see the novelty of opportunity when establish firm cannot. This is more likely the emerging capability. To address these learning and capabilities development, this connection logic requires investigation. It seems possible to articulate the following hypothesis:

H2: Explorative learning is positively associated with the new emerging capabilities

Conceptual Framework

Linked with the above discussion, this research claims that learning explorative may lead to other types of capability; which are capability emerging. At this stage, the researcher refers to Helfat (1997), where he defines dynamic capability as "the subset of the competences/capabilities which allow the firm to create new products and processes and respond to changing market circumstances". Thus, in this paper, researcher proposes a conceptual framework to investigate the emerging of dynamic capability through learning orientation as shown in Figure 1.

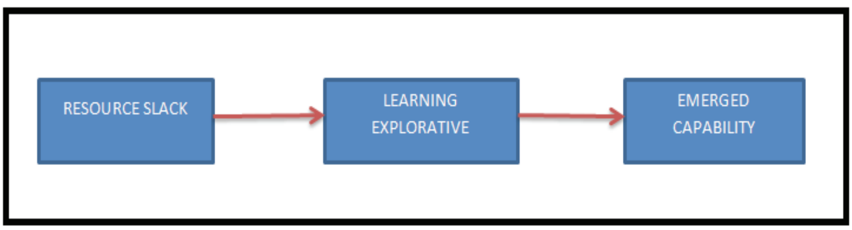

Figure 1: Conceptual Framework

3. Estimation Method

The primary data collection method for this research will be quantitative: a survey questionnaire. The questionnaires will be design to apply to industrial sector SMEs in Malaysia, particularly which involves as INVs. The questionnaires will be sending to top managerial level for each SME either by post or individual visit (Kim, 2006). This study will use the cross-sectional data, in which samples will be analysed once in time, as opposed to a longitudinal study (Zikmund, 2003; Sekaran and Bougie, 2010). This type of study is chosen because it going to be less expensive and time consuming (Kumar, 2005).

Researcher is projected to penetrate the database from the government agencies, such as Malaysia External Trade Development Corporation (MATRADE) and Ministry of International Trade and Industry (MITI). These agencies will be approach as they would certainly have access to INVs firms, considering that one of MATRADE's agendas is to promote the internationalisation of Malaysian firms. Another source of INVs firms is the Small and Medium Industries/Small and Medium Enterprises Business Directory (SMI/SME Business Directory) and Federal Manufacturing Malaysia (FMM). Those directories are listing the current export market that the companies involve with.

Population, Sampling and Respondents

Malaysia presents an interesting case as international business continues to drive progress in the Malaysian economy with total trade (exports plus imports) being the equivalent of more than 100% of Gross Domestic Product (GDP) (Euromonitor International, 2010). Furthermore, Malaysia is experiencing a transitional period from a developing nation to a developed one, aligned with the government's goal to reach first-world status by 2020. SMEs in Malaysia account for more than 99% of total establishments in the three main economic sectors of manufacturing, services and agriculture (Saleh and Ndubisi, 2006). In this research, researcher intended to run the survey among the SMEs which is categorized as INVs firms. In order to identify this, the SMEs must be fit in those categories: (1)define as a small or medium enterprise, according to the definition approved by the National SMEs Development Council, Malaysia (that is, an enterprise employing between 5 and 150 employees), (2) exporting in multiple foreign countries and (3) speed of internationalization must be below 8 years after inception.

While, in the selection of sample, there is no readily available database that identifies INVs/born global firms. Therefore, the non-probability and probability sampling are the best choice for this special situation. The researcher might use the snowball sampling (Atkinson and Flint, 2001) and census sampling.

Snowball sampling may simply be defined as a technique for finding research subjects. One subject gives the researcher the name of another subject, who in turn provides the name of a third, and so on This strategy can be viewed as a response to overcoming the problems associated with sampling hidden populations such as the criminal and the isolate. Even though it is widely use for the qualitative research, but according to Atkinson and Flint (2001), snowball sampling can also considered as an alternative or as a complementary strategy for attaining more comprehensive data on a particular research question. Therefore, researcher will be using this sampling technique in order to capture more respondents to answer survey.

Last but not least, the respondents of this research will be among the owner/founder, chief executives officer, managing director or international division manager.

4. Conclusion

In order to strengthen the RBV and DC, there is still a great need to support the theoretical underpinnings of the RBV concepts and premises (Priem and Butler, 2001; Kraaijenbrink et al., 2010). The need to support the underpinnings of the concepts through empirical research is important to the continued development and usefulness of the RBV in strategic management.

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